

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

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FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 PA-01 PRS-01 L-03 H-02 AGR-05 /092 W

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R 271729Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2442

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION EC BRUSSELS

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

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AMCONSUL STUTTGART

USMISSION USBERLIN

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DEPARTMENT PASS TREASURY, CEA AND FRB

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: TAX REVENUE ESTIMATES PORTEND LARGE DEFICIT

FOR 1976 DESPITE GENEROUS GNP GROWTH

ASSUMPTION

REF: BONN 8375

1. SUMMARY. FRG EXPERTS FORECAST TAX REVENUES FOR 1975

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AND 1976 THAT WOULD IMPLY, ACCORDING TO EMBASSY

CALCULATIONS, FEDERAL BUDGET DEFICITS OF DM 4L BILLION AND DM 47.5 BILLION, RESPECTIVELY. THESE FORECASTS ARE BASED ON NOMINAL GNP INCREASES OF 4.5 PERCENT THIS YEAR AND 9.5 PERCENT NEXT YEAR AND TAKE INTO ACCOUNT THE NEW GOVERNMENT SAVINGS AND STIMULATIVE PROGRAMS AS WELL AS CONTINUING HIGH-LEVEL UNEMPLOYMENT NEXT YEAR. STATE AND LOCAL GOVERNMENT TAX REVENUE FORECASTS SUGGEST THAT THEIR BORROWING REQUIREMENTS WILL TOTAL DM 30 BILLION IN 1975 AND AT LEAST AN EQUAL AMOUNT NEXT YEAR. THE TOTAL NET BORROWING REQUIREMENT FOR FEDERAL, STATE AND LOCAL LEVEL THEREFORE APPEARS TO BE DM 68 BILLION IN 1975 AND DM 75 BILLION IN 1976.END SUMMARY

2. FRG EXPERTS HAD A THREE-DAY SESSION ENDING AUGUST 23 FOR THE PURPOSE OF PROJECTING TAX REVENUES FOR THE PERIOD 1975 THROUGH 1979. IT IS, OF COURSE, A MORE MEANINGFUL EXERCISE FOR THE CURRENT AND COMING YEAR THAN THOSE FURTHER OUT ON THE HORIZON, AND THEREFORE WE CONCENTRATE OUR ANALYSIS ON THESE. IN THE CASE OF 1975, THE ANTICIPATION IS FOR THE FEDERAL GOVERNMENT TO HAVE TAX INCOME OF DM 118 BILLION, OR 1.4 PERCENT LESS THAN LAST YEAR AND 7.7 PERCENT LESS THAN FORECAST IN MARCH. THIS NEW ESTIMATE IS BASED ON THE ASSUMPTION THAT NOMINAL GNP GROWTH WILL BE 4.5 PERCENT. ASSUMING THAT THE GOVERNMENT REVENUE FORECASTERS PROJECT THE SAME GNP DEFLATOR FOR L975 AS THE 8.5 PERCENT EXPECTED BY THE COUNCIL OF ECONOMIC ADVISORS IN THEIR RECENTLY RELEASED REPORT, THE GOVERNMENT FORECASTS A REAL GNP DECLINE OF ABOUT 4 PERCENT, WHICH IS 1 PERCENT LOWER THAN THE COUNCIL (SEE REFTTEL).

3. FEDERAL EXPENDITURES IN 1975 ARE EXPECTED TO RISE TO DM 41 BILLION MORE THAN INCOME, WHICH, OF COURSE, IS THE AMOUNT OF THE DEFICIT. SINCE SOME DM 3 BILLION OF THIS WILL COME FROM THE COUNTERCYCLICAL RESERVES, ABOUT DM 38 BILLION WILL BE THE NET BORROWING REQUIREMENT FOR THE YEAR.

4. THE 1976 TAX REVENUE PROJECTION OF DM 126 BILLION IS BASED ON A 9.5 PERCENT NOMINAL GNP GROWTH. (THIS LIMITED OFFICIAL USE

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REPRESENTS ONLY A 6.9 PERCENT INCREASE OVER 1975  
REVENUES; A TAX ALLOCATION ADJUSTMENT PROBABLY FIGURES  
IN THIS RELATIVELY LOW GROWTH.) THE 9.5 PERCENT GNP  
GROWTH RATE WOULD BE CONSISTENT WITH A 4 TO 5 PERCENT  
REAL GNP GROWTH RATE (WHICH MANY PEOPLE CONSIDER MORE  
REALISTIC THAN THE 6 PERCENT FORECAST OF THE COUNCIL OF  
ECONOMIC ADVISORS) PROVIDED THE GNP DEFLATOR IS A LOW  
4.5 - 5.5 PERCENT. ANOTHER DM 4 BILLION ACCRUES TO THE  
FEDERAL GOVERNMENT AS A RESULT OF "ADMINISTRATIVE  
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INCOME", MAKING THE TOTAL FORECASTED INFLOW DM 130 BILLION.

5. APART FROM THE TAX REVENUE FORECASTING EXERCISE, THERE WAS MUCH GOVERNMENT ACTIVITY FROM THE CHANCELLOR ON DOWN CONCERNING THE NEED TO LIMIT THE EXPANSION OF EXPENDITURES IN 1976. WHAT IS BEING TALKED ABOUT IS A "DRASTIC" ECONOMIZING DRIVE (WHICH, INCIDENTALLY, IS INCREASINGLY SOUNDING LIKE A CASE OF "MORE BARK THAN BITE") THAT WILL LIMIT THROUGH SPECIAL LEGISLATION AND EXECUTIVE ACTION, THE GROWTH OF GOVERNMENTAL OUTLAYS TO 6 OR 7 PERCENT ABOVE THE ORIGINALLY BUDGETED DM 155 BILLION (NOT THE PROBABLE ACTUAL 1975 EXPENDITURE AMOUNT OF SOME DM 162 BILLION) LEVEL FOR 1975. ASSUMING THAT 6.5 PERCENT IS THE EXPENDITURE GROWTH RATE THAT WILL BE REALIZED FOR 1976, THE AMOUNT ARRIVED AT IS DM 165 BILLION. HOWEVER, A KNOWLEDGEABLE ECONOMICS MINISTRY SOURCE TELLS US THAT THIS DOES NOT INCLUDE AN ANTICIPATED DM 9.5 BILLION THAT THE FEDERAL GOVERNMENT WILL HAVE TO PROVIDE TO THE FEDERAL EMPLOYMENT OFFICE TO COVER THE ADDITIONAL COSTS OF UNEMPLOYMENT BENEFITS WHICH WILL CONTINUE AT A HIGH LEVEL IN 1976. (THAT THIS AMOUNT IS BEING CONSIDERED, WOULD SUGGEST THAT THE GOVERNMENT EXPECTS THE AVERAGE UNEMPLOYMENT LEVEL NEXT YEAR TO BE HIGHER THAN THIS YEAR; THE EMPLOYMENT OFFICE BAILOUT ON THE SAME ACCOUNT IN 1975 WILL AMOUNT TO DM 8 MILLION .) ALSO, A FINANCE MINISTRY CONTACT TOLD US THAT THE DM 3 BILLION OR SO FEDERAL PORTION FROM THE NEW DM 5.5 BILLION ECONOMIC STIMULATION "KONJUNKTUR" PROGRAM THAT WILL BE PAID OUT IN 1976 IS LIKEWISE NOT INCORPORATED IN THE DM 165 BILLION. THEREFORE, A TRUE PICTURE OF THE SITUATION WOULD REQUIRE THE ADDITION OF THESE TWO AMOUNTS, WHICH WOULD RAISE THE PROJECTED 1976 FEDERAL EXPENDITURES LEVEL TO DM 177.5 BILLION (OR 10 PERCENT ABOVE THE ANTICIPATED ACTUAL 1975 EXPENDITURE LEVEL). GIVEN THE INCOME PROJECTION OF DM 130 278))89,, THIS IMPLIES THAT A DEFICIT OF DM 47.5 BILLION (AND NET BORROWING REQUIREMENT OF ABOUT DM 44.5 BILLION, GIVEN THE REMAINING COUNTERCYCLICAL RESERVES THE GOVERNMENT HAS ON DEPOSIT WITH THE BUNDESBANK) IS FORESEEN FOR 1976, LIMITED OFFICIAL USE

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OR 4 PERCENT OF GNP FOR THE SECOND YEAR RUNNING -- AN UNPRECEDENTED SITUATION IN GERMANY. OUR FINANCE MINISTRY CONTACT SAID HE ANTICIPATES A 1976 DEFICIT IN THE DM 43-44 BILLION REGION. HIS LOWER FIGURE IS ATTRIBUTED TO THE FACT THAT HE IS SLIGHTLY MORE OPTIMISTIC REGARDING THE ABILITY TO KEEP THE EXPENDITURE GROWTH AT 6 PERCENT.

6. THE REVENUE ESTIMATING EXERCISE ALSO EXAMINED THE STATE GOVERNMENT SITUATION, AND FOUND THEIR TAX INCOME LIKELY TO BE DOWN BY 3.8 PERCENT IN 1975, BUT UP BY 7.9 PERCENT IN 1976 TO A LEVEL OF DM 86 BILLION. LOCAL GOVERNMENT TAX REVENUES WERE ESTIMATED TO GROW BY 0.6 PERCENT IN 1975 AND BY 7.6 PERCENT IN 1976, TO REACH DM 36 BILLION. AS WILL BE SEEN, THE STATE AND LOCAL GOVERNMENT TAX REVENUE TOTAL PRACTICALLY EQUALS THE FEDERAL TAX TAKE. ALTOGETHER, THE FORECAST IS FOR TOTAL TAX REVENUES AT ALL LEVELS TO REPRESENT 23 PERCENT OF GNP IN 1975 AND 22.5 PERCENT IN 1976, WHICH IS MORE OR LESS THE HISTORICAL AVERAGE OF THE PAST TEN YEARS. THE NET BORROWING REQUIREMENTS FOR STATE AND LOCAL GOVERNMENT ARE ESTIMATED FOR 1975 TO BE IN THE NEIGHBORHOOD OF DM 30 BILLION AND AT LEAST THE SAME IN 1976.

7.  
ON AUGUST 27, AS EXPECTED (SEE EMBTEL 13740), THE CABINET APPROVED BOTH THE 1975 SUPPLEMENTAL BUDGET OF DM 15 BILLION (TO MAKE UP FOR DM 9 BILLION LOWER REVENUES DUE TO ECONOMIC SLUMP AND ADDITIONAL EXPENDITURES OF DM 6 BILLION) AND THE ECONOMIC STIMULATION PACKAGE AIMED AT THE CONSTRUCTION INDUSTRY OF DM 5.75 BILLION.  
CASH

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## Message Attributes

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